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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000078

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STATE FOR NEA/ARP, EB; TREASURY FOR JONATHAN ROSE

E.O. 12958: DECL: 01/17/2018
TAGS: [EFIN](#) [EINV](#) [KU](#)
SUBJECT: KUWAIT INVESTMENT AUTHORITY TO INVEST USD 5
BILLION IN CITI AND MERRILL

REF: A. 07 KUWAIT 1696

[1](#)B. 07 KUWAIT 1422
[1](#)C. 07 KUWAIT 1600
[1](#)D. 07 KUWAIT 1701

Classified By: Acting DCM Tim Lenderking for reasons 1.4 (b) and (d).

[1](#)1. (U) On January 15, Kuwait Investment Authority (KIA) announced that it had agreed to a USD 3 billion investment in Citi and USD 2 billion investment in Merrill Lynch through the following press release:

Begin press release:

Kuwait Investment Authority (KIA) announced that it agreed to a USD 3 billion participation in the USD 12.5 billion Citi Group Convertible Preferred Securities and USD 2 billion participation in the USD 6.6 billion Merrill Lynch Convertible Preferred Stock.

As a long term financial investor, KIA believes that the markets currently provide attractive investment opportunities in the financial sector

Kuwait has the oldest Sovereign Wealth Fund in the world. It started as the Kuwait Investment board in London in 1953. KIA in Kuwait was established as an autonomous government body responsible for the management of the assets of the country.

The KIA's main role is to transfer a single non-recurring asset, which has a high volatility and risk, into a diversified portfolio of financial assets.

For more information on KIA, please visit www.kia.gov.kw

End press release.

[1](#)2. (C) KIA Executive Director Ahmad Bastaki told econoff on 16 January that KIA, which manages at least USD 213 billion in assets through its General Reserve Fund and Fund for Future Generations, views these new investments in Citi and Merrill as it does its major stakes in BP and Chrysler: they are long-term, "core investments." Bastaki insisted that this sudden investment in two major U.S. financial institutions does not mark a departure from KIA's existing investment strategy (described in the background section below and on the KIA website). He said KIA's target rate of return is 7.01 percent with a risk profile (presumably standard deviation) of 9.3 percent, which would enable the KIA to double its investments within 10 years. Bastaki said KIA has always invested in U.S. financial institutions as a long-term, passive financial investor and a stable shareholder. Bastaki said KIA does have concerns about the

prospects for the dollar and a possible U.S. recession but added that the current market in the U.S. stills presents attractive investment opportunities in the financial sector.

13. (C) Responding to calls for SWFs to demonstrate greater transparency and work through the IMF to develop a set of best practices, Bastaki pointed out that KIA's corporate governance structure has been rated as one of the best in the world by a leading independent global consultant and also re-aligned itself in 2006 to reflect industry best practices. (Note: KIA has in recent months made small but noteworthy steps towards greater transparency. In July 2007, then Finance Minister Bader Al-Humaidhi publicly announced the value of KIA assets under management for the first time at USD 213 billion. Subsequently, in November 2007, the local Kuwaiti press published an unusual table listing the overseas investments of the Kuwait Investment Authority's Fund for Future Generations by geographic distribution and asset class (Ref A). KIA has also updated its website several times in recent months to include an expanded section on governance and a description of its general investment strategy as revised in 2006. End Note.) In recent meetings with U.S. Treasury officials including Deputy Secretary Kimmitt, Under Secretary McCormick, and former DAS Saeed, GOK officials have

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expressed their willingness, despite some skepticism, to engage in further dialogue about the IMF best practices scheme (Refs B, C, and D).

BACKGROUND

14. (SBU) The Kuwait Investment Authority was founded in 1982, though its London-based subsidiary, the Kuwait Investment Office, has existed since 1953. KIA manages the General

KUWAIT 00000078 002 OF 002

Reserve Fund (which receives all government revenues and includes other state-owned funds, including the Kuwait Petroleum Corporation Reserve Fund), the Fund for Future Generations (which receives 10 percent of the all state revenues annually and reinvests all of its investment income), and other monies committed by the Ministry of Finance. (Note: In FY2006/2007, about 95 percent of government income came from oil). KIA invests primarily in OECD countries with asset allocations roughly corresponding to each country's share of world GDP. Most of KIA's investments are managed by external fund managers in the U.S. and Europe, though KIA's London office manages some of its investments directly. KIA's board of directors is headed by the Minister of Finance, with other seats allocated to the Oil Minister, the Governor of the Central Bank, the Under Secretary of Finance, and five other Kuwaiti nationals, three

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of whom must not hold any other public office. KIA employs about 330 staff in Kuwait and about 100 in London. The staff in Kuwait do not manage investments directly but are characterized as "managers of fund managers." About 80 percent of KIA's staff are Kuwaiti nationals. Managing Director Bader Al-Saad says he hires about one out of every five applicants, who are required to have a degree in business and strong English skills. KIA offers its employees impressive benefits including a fully-funded MBA at any top-25 university at which they are accepted as well as 2-3 year rotations as "Junior Professional Officers" at the World Bank. Al-Saad said because the Kuwaiti headquarters, but not the London office, is constrained by Kuwait's civil service pay scale, he loses many of his most talented employees to more lucrative jobs in the private sector. Recent press reporting has suggested that Al-Saad was frustrated by KIA's inability to rapidly seize emerging opportunities in the financial sector compared to other SWFs. He is reportedly trying to make KIA more nimble and responsive.

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